

Message Text

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AMEMBASSY ROME
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C O N F I D E N T I A L MADRID 1415

FOR TREASURY AND USDOC
USNMR FOR POLAD

E.O. 11652: GDS
TAGS: EFIN, PFOR, SP
SUBJECT: SPANISH GOVERNMENT OUTLINES AN ECONOMIC PROGRAM

REF: MADRID 1341, 76MADRID 7852; 76MADRID 7753; MADRID A-16 (NOTAL)

1. SUMMARY: MINISTER OF FINANCE CARRILES ON FEBRUARY 22
ANNOUNCED IN GENERAL TERMS MEASURES WHICH GOS WILL UNDER-
TAKE OR HAS PLANNED FOR FUTURE. THE MINISTER RULED OUT A
REDUCTION IN THE PRESENT 21 PERCENT RATE OF MONEY SUPPLY
GROWTH AND IN THE 23 PERCENT GROWTH IN CREDIT TO THE PRIVATE
SECTOR. CARRILES ALSO INDICATED A DEPRECIATION OF THE
PESETA IS INAPPROPRIATE BECAUSE OF THE DOMESTIC PRICE INFLA-
TION WHICH WOULD RESULT. TOUCHED UPON, AND OF KNOWN IMPORT-
ANCE IN GOS THINKING, WERE TAX REFORM, INCREASED ENERGY
PRICES, AND A PROGRESSIVE FREEING OF CONTROLLED INTEREST
RATES. PRIORITY FINANCING FOR EXPORTS AND FASTER TAX REBATES
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TO EXPORTERS WERE PROMISED, BUT NO SPECIFICS WERE PROVIDED.
BUDGETED EXPENDITURES FOR PUBLIC INVESTMENT ARE TO BE INCREASED
BY 50 BILLION PESETAS TO 360 BILLION. IN ALL, 49 MEASURES,
MANY CALLING ONLY FOR REVIEW OF EXISTING POLICY OR FOR NEW
ATTITUDES, WERE ENUMERATED BY CARRILES. BECAUSE OF THE
VAGUENESS OF THE PRESENTATION (THE MINISTER DECLINED TO TAKE
QUESTIONS FROM THE PRESS), IT IS NOT CLEAR WHAT IMPLEMENTING

DECREES AND REGULATIONS MAY FOLLOW THIS FIRDAY'S CABINET MEETING, BUT SOME ARE EXPECTED. IT COULD BE SIGNIFICANT THAT THIS PROGRAM WAS GIVEN LOWER-KEY TREATMENT THAN THAT ANNOUNCED LAST OCTOBER. THIS ONE WAS ANNOUNCED ONLY AT THE MINISTER RATHER THAN THE VICE PRESIDENT LEVEL. EVEN OPTIMISTICALLY, THE MEASURES PRESENTED CANNOT ACHIEVE MAJOR IMPROVEMENT WITH REGARD TO THE SPANISH PROBLEMS OF INFLATION, BALANCE OF PAYMENTS DEFICITS, UNEMPLOYMENT, AND LACK OF INVESTER CONFIDENCE. END SUMMARY.

2. THE ANNOUNCEMENT OF NEW ECONOMIC MEASURES HAD BEEN EXPECTED FOLLOWING COUNCIL OF MINISTERS MEETING FEBRUARY 18. EITHER BECAUSE OF THE COMPLEXITY OF THE PACKAGE OR DISAGREEMENTS OVER SOME PARTS OF IT, IT WAS ANNOUNCED AFTER THE FEBRUARY 18 MEETING THAT THE FINANCE MINISTER WOULD REVEAL THE MEASURES AT A PRESS CONFERENCE FEBRUARY 22. IN THE EVENT, QUESTIONS FROM THE PRESS WERE REFUSED AND THE MINISTER'S PREPARED STATEMENT, DELIVERED AT 7:00 P.M., WAS NOT FULLY CARRIED BY THE NATIONAL TV AND RADIO NETWORK UNTIL AFTER 11:30 IN THE EVENING. THE GOVERNMENT'S OWN NEWS COMMENTATORS SEEMED TO PLAY DOWN THE MEASURES AND THE KING AND PRIME MINISTER HAVE NOT HAD THEIR NAMES INVOKED.

3. IN HIS INTRODUCTORY REMARKS CARRILES SAID THAT THE ECONOMIC PROBLEMS BEING EXPERIENCED BY SPAIN WERE NOT TEMPORARY, BUT DUE TO THE NOW OUTDATED EARLIER (FRANCO EAR) STRUCTURE OF THE ECONOMY. THE MINISTER SAID THAT THE PROGRAM BEING REVEALED TREATS - IN THE CONFIDENTIAL

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MEDIUM TERM - INFLATION (ABOVE 14 PERCENT ANNUALLY DURING THE LAST FOUR YEARS, 20 PERCENT IN 1976), UNEMPLOYMENT (OWRRISOME AND GROWING), BOP DEFICITS (4.3 BILLION DOLLARS LAST YEAR, ABOVE 3.5 BILLION IN 1974 AND 1975), EXPORTS, AND INVESTMENT (STILL IN THE TROUGH OF A RECESSION).

4. THE MINISTER THEN PROCEEDED TO READ A LIST OF FORTY-NINE MEASURES, ALL BUT ONE DESCRIBED IN LESS

THAN A SENTENCE, WHICH HAD LITTLE CONNECTION TO THE ANNOUNCED MEDIUM-TERM GOALS. THREE MEASURES WERE SPECIFIC AND STRAIGHT-FORWARD: MAINTAIN A 21 RPT 21 PERCENT GROWTH IN THE MONEY SUPPLY (CASH PLUS ALL DEPOSITS) AND A 23 RPT 23 PERCENT INCREASE IN CREDIT TO THE PRIVATE SECTOR, AND INCREASE BUDGETED EXPENDITURES FOR PUBLIC INVESTMENT BY 50 BILLION PESETAS TO 360 BILLION. MANY MEASURES CALLED FOR ACTION WITHOUT MAKING CLEAR HOW IMPORTANT THE ACTION WOULD BE:

"CONTROL" CERTAIN PRICES, "PRIORITY FINANCE" FOR EXPORTS, FASTER TAX REBATES FOR EXPORTS, "PROMOTION" OF TOURISM, AND "PROGRESSIVE LIBERALIZATION" OF INTEREST RATES. MOST OF THE POINTS HOWEVER INDICATED NO SPECIFIC ACTION, CALLED FOR A REVIEW OF POLICIES, OR WERE SO VAGUE AS TO BE NOT UNDERSTOOD, AS FOR INSTANCE: ACCELERATE AND DECENTRALIZE URBAN ORGAN ACTIVITIES, "SUBMIT FOR PUBLIC INFORMATION" A PROPOSAL FOR FISCAL REFORM, REVIEW SUBSIDIES, STUDY AGRICULTURAL IMPORT SUBSTITUTION, REVISE THE SYSTEM OF AUTHORIZED PRICES, REFORM STRIKE POLICY, ESTABLISH LABOR UNION FREEDOM, AND PRACTICE CORRECT ENERGY PRICING. A PRESS HANDOUT FURTHER STATES THE "PRESENCE OF FOREIGN FINANCIAL ENTITIES IN THE SPANISH MARKET IS CONSIDERED CONVENIENT" TO STIMULATE COMPETITION.

5. GOS MACROECONOMIC ESTIMATES FOR 1977 WERE ALSO
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RELEASED. THEY WERE SAID TO HAVE BEEN USED IN PLANNING THE GOVERNMENT'S PROGRAM. THE GDP DEFLATOR USED IS 17 PERCENT REPEAT 17 PERCENT, WHICH IS EVEN HIGHER THAN THE PRICE DEFLATOR CALCULATED SOME MONTHS AGO FOR 1976. THUS THE ESTIMATES SHOW THAT THE GOVERNMENT IS NOT COUNTING ON REDUCING INFLATION. EXPORTS ARE TO GROW 6.5 PERCENT, WHILE IMPORTS WILL BE HELD TO A THREE PERCENT GROWTH IN TERMS OF REAL PRICES. FOR THE FIRST TIME IN RECENT YEARS PRIVATE CONSUMPTION IS TO INCREASE LESS THAN GDP. INCREASED PUBLIC CONSUMPTION AND INVESTMENT IS TO BE THE FLYWHEEL FOR THE ECONOMY THIS YEAR. THE LOGICAL CONNECTION BETWEEN THE GOS ECONOMIC PROGRAM AND THESE MACROECONOMIC ESTIMATES IS NOT CLEAR.

6. CARRILES SIAD IN HIS INTRODUCTORY REMARKS THAT SPAIN SHOULD HAVE A "MORE POWERFUL" AND EFFICIENT PUBLIC SECTOR AND A "FREER" PRIVATE SECTOR THIS SEEMS AN APPROPRIATE BUT INSUFFICIENT STRATEGY. WE NOTE THAT THE SPANISH PUBLIC SECTOR IS COMPARATIVELY SMALL (SEE MADRID A16). THERE IS NO CLEAR INDICATION WHERE INCREASED PUBLIC EXPENDITURES WILL BE DIRECTED, ALTHOUGH THE MINISTER EMPHASIZED THAT THEY WOULD BE "REGIONALIZED" AND WOULD CREATE JOBS. IN THE INTRODUCTORY REMARKS CARRILES ALSO EMPHASIZED THE NEED FOR GREATER CLARITY IN FISCAL ACCOUNTING AND FOR AN IMPROVED PARLIAMENTARY BUDGET PROCESS.

7. COMMENT: EVEN A GENEROUS INTERPRETATION OF THE NEW PROGRAM DOES NOT ALLOW FOR OPTIMISM ABOUT THE GOVERNMENT'S WILLINGNESS AT THIS TIME TO DEAL WITH SPAIN'S MOST PRESSING ECONOMIC PROBLEMS. THE INTENTION TO FREE INTEREST RATES

AND BEGIN PREPARATIONS FOR TAX REFORM ARE POSITIVE. HOWEVER, CONTRARY TO THE MINISTER OF FINANCE'S PROTESTATIONS AGAINST INFLATION, A PROGRAM INCLUDING A CONTINUATION OF A 21 PERCENT ANNUAL RATE OF INCREASE IN MONEY SUPPLY AND INCREASED GOVERNMENT SPENDING AUGURS THE CONTINUANCE
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OF AT LEAST THE LEVEL OF INFLATION OF THE IMMEDIATE PAST. NO REFERENCE IS MADE TO WAGE GUIDELINES. THE REFERENCE TO PRICE CONTROLS SEEMS A ROUTINE REPETITION OF WHAT HAS BEEN SAID IN THE PAST. INTENTIONS ON ENERGY PRICES ARE NOT YET CLEAR. ALTHOUGH THE MINISTER SEEMED TO COME OUT AGAINST EXCHANGE RATE MOVEMENT, THERE WAS PRESS SPECULATION OVER THE WEEKEND OF DEBATE WITHIN THE GOVERNMENT OVER A DOWNWARD FLOAT, AND THE EXCHANGE RATE AGAINST THE DOLLAR HAS IN FACT DEPRECIATED SLIGHTLY FURTHER IN THE LAST FEW DAYS.

8. WITHOUT DOUBT WE AND THE PRESS WILL LEARN MORE WITHIN THE NEXT FEW DAYS. MEASURES WHICH ARE TO BE UNDERTAKEN IMMEDIATELY WILL REQUIRE PUBLICATION OF ROYAL DECREES AND IMPLEMENTING REGULATIONS. A KEY OFFICER IN THE PRESIDENCY HAS INFORMED US THAT ROYAL DECREES IMPLEMENTING SOME OF THIS PROGRAM MAY BE ANNOUNCED AFTER FRIDAY'S CABINET MEETING, AND PUBLISHED SATURDAY. STABLER

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Message Attributes

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